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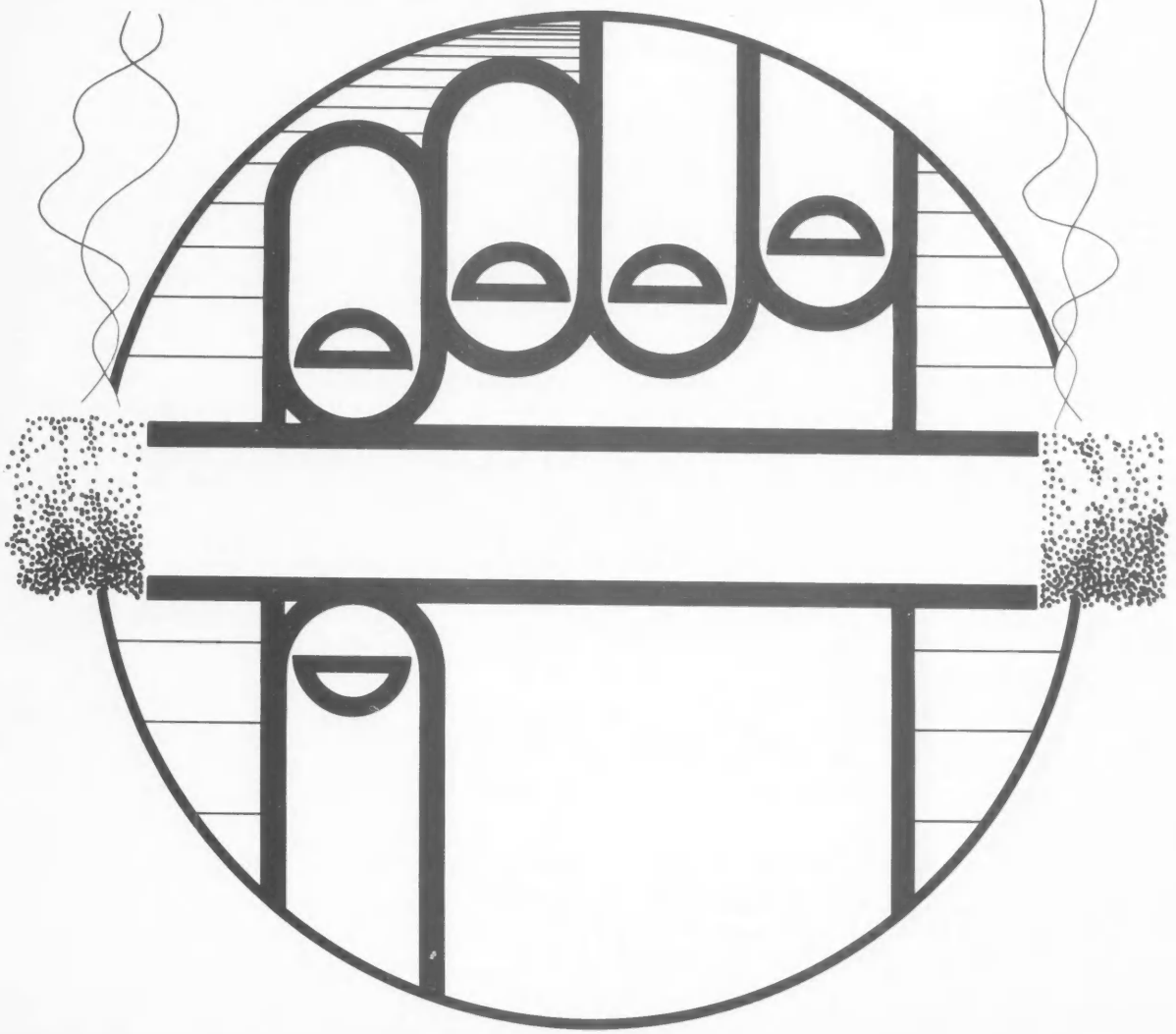
FARM INDEX

U.S. Tobacco Policy: Burning at Both Ends?



Perspectives

Despite record exports and a substantial expansion of on-farm grain storage space, U.S. granaries are bulging again and may not be able to contain the bounty—at least until the transportation system takes away some of the overload.

The harvest is well underway and estimates of production figures for corn and soybeans are at all-time highs. Other crops should also fare well and here lies the problem:

There may not be enough storage space because stocks of soybeans and feed grains were higher going into the harvest than they were a year ago.

A little relief. On-farm grain storage and drying capacity has been expanded considerably since 1977, which helps to alleviate the problem somewhat. Much of the expansion was financed by USDA's Farm Facility Loan Program. Loans under this program aided construction of 513 million bushels of storage capacity in 1977 and another 845 million bushels in 1978. Construction, under this program, declined to 215 million bushels through August of this year because of higher interest rates on the financing.

Total U.S. grain storage capacity in 1979 is placed at 17.9 billion bushels, 8 percent more than a year ago. Of that total figure, on-farm storage amounted to 10.9 billion bushels while commercial storage took up the remainder. On-farm storage has increased by 1 billion bushels since last year while commercial storage has increased by about 400 million bushels.

Spotty storage space. Storage space is likely to be tight in some areas of the Corn Belt, Nebraska, and Colorado. However, the probable deficits in any of these areas should not exceed 1 to 1½ months' average disappearance.

Labor strikes at the Duluth-Superior ports and Rock Island Railroad, put additional pressure on the Nation's already-strained inland transportation network.

No grain was loaded for export from the two ports during August—when in the previous year they handled almost 37 million bushels. Chicago and Pacific Coast ports took up some of the slack and several railroads consolidated grain shipments into scheduled unit trains.

Strike ends. When the strike finally ended in late September, port authorities speculated that 4 to 5 million tons of grain could be moved out of the two ports before the navigation season ends in mid-December. An extension of that closing date is possible, however.

The fuel situation for transportation continues to improve although fuel allocations are still below last year's level. Currently, fuel availability is not a serious problem for any of the three major transport modes—rail, truck, or barge—although prices are much higher than last year.

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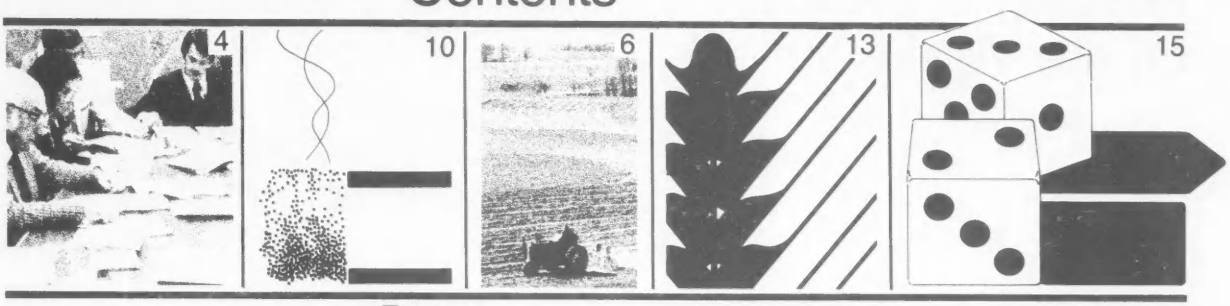

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Keeping a Lookout on the World Outlook

Halfway across the globe, adverse weather is ruining the Soviet wheat crop. A late monsoon is threatening the rice crop in India. And in Argentina, soybeans are being harvested in record numbers.

Each year, developments like these have a tremendous impact on U.S. agriculture. By boosting or reducing our export prospects, they affect prices throughout the marketing chain—at the farm, wholesale, and retail levels.

For more than a century, the U.S. Department of Agriculture—through the Crop Reporting Board—has kept the agricultural sector up to date on U.S. crop production prospects. But no comparable system existed to forecast crop production in other countries.

WFAOSB established

So in 1977, the Secretary of Agriculture established the World Food and Agricultural Outlook and Situation Board (WFAOSB) to improve USDA's economic intelligence on world agriculture.

By the mid-1970s, world commodity prices had begun to fluctuate wildly, food grain shortages were widespread, and the U.S. had emerged as the world's largest supplier of agricultural products.

With U.S. agriculture and foreign markets growing more interdependent, unanticipated disruptions in global supply and demand began to hurt domestic farmers and consumers.

Russian Wheat Deal

In fact, one such event spurred creation of the WFAOSB—the so-called "Russian Wheat Deal."

Referring to that grain sale, Congress declared that "the Soviets would not have been able to buy up such a substantial portion of the world's grain reserves at such low prices in 1972-73 had it not been for the failure of our intelligence systems to provide adequate and timely information on the Soviets' buying intentions and crop prospects."

Now, however, with the WFAOSB to coordinate USDA's information-gathering network, such miscalculations are unlikely to recur.

Intelligence network

The two principal links in this network are the Foreign Agricultural Service (FAS) and the Economics, Statistics, and Cooperatives Service (ESCS). FAS taps information from its attachés stationed in 110 countries, while ESCS provides economic analysis and forecasts on countries and regions through its Washington Staff.

In addition, the Agricultural Stabilization and Conservation Service (ASCS) provides the board with analysis on the U.S. commodity programs, and the Office of the General Sales Manager (OGSM) supplies information on U.S. agricultural exports.

Commodity reports

Experts from these and other USDA agencies meet regularly with a representative of the World Board to determine the Department's latest official estimates on the status of commodities both at home and abroad.

The committees discuss reports on specific commodities and commodity groups, such as wheat, oilseeds, and rice. They also handle special reports on export outlook, world agriculture, and many more.

After a board meeting on a specific report, an approved summary is released to the public, followed by the full report within a week to 10 days.

The WFAOSB also chairs periodic sessions to determine the latest supply and demand estimates for the major crops. These meetings are not adjourned until the report has been approved, and a photocopy of the full report is issued the same day, immediately after the commodity markets close.

Up to now, these reports have concentrated primarily on the domestic outlook, but the board plans to soon release a set of coordinated supply and demand estimates for world agriculture.

World crop production

In a continuing effort to improve the timeliness of its world agricultural information, the WFAOSB recently began holding monthly sessions devoted to world crop production.

At these meetings, held under strict security, experts from FAS, ESCS, the Office of the General Sales Manager, and the WFAOSB gather to prepare production estimates for the major crops in important regions and countries of the world.

Once the report is compiled, the Secretary of Agriculture must give his signature of approval. Then, at precisely 3 p.m. the same day, the World Crop Production report is released to the general public. Its release is timed to coincide with the Crop Reporting Board's monthly estimates of U.S. production.

Weather information

Of course, in addition to the information-gathering efforts of FAS and ESCS, a crucial component of the WFAOSB's intelligence is accurate and timely weather information.

Weather is the dominant, most uncertain variable in the formula for agricultural forecasting. To improve its ability to anticipate and monitor weather here and abroad, the board created, in cooperation with the Commerce Department's National Oceanic and Atmospheric Administration (NOAA), a joint agricultural weather facility.

The facility compiles meteorological data from 6,500 weather stations around the world, weather satellites, and other sources. Early warnings alert the board to major upcoming changes in the weather.

The weather center is staffed with meteorologists from USDA and NOAA, who assist commodity analysts in interpreting the probable impact of weather on crop production.

Getting the information out

Working with NOAA on weather forecasts and with ESCS and FAS on world crop production and supply and demand factors, the WFAOSB has greatly improved USDA's intelligence-gathering system.

Through the commodity situation reports and the monthly Agricultural Supply and Demand Estimates and World Crop Production reports, information on developments in world agriculture is quickly disseminated to those who must determine U.S. agricultural policy.

The Farmer's Newsletter series, initiated by Congress through the World Board and produced by ESCS, brings the latest U.S. and global commodity information to U.S. producers to help them make planting and marketing decisions.

In addition, the World Board reviews ESCS' monthly magazine, Agricultural Outlook, prior to publication to ensure consistency and clarity of its situation and outlook material.

[Based on special material provided by The World Food and Agricultural Outlook and Situation Board.]

This Land Is Whose Land?

Draw a line from the western border of Minnesota south to the southern edge of Missouri and then east below Kentucky and Virginia.

Take the combined land area of the 22 States to the north and east of that line, add in North Carolina, and the total is about equivalent to the 493 million acres of U.S land owned by farmers and ranchers.

Although farmers account for only 8 percent of all landowners, they hold the deed to nearly 40 percent of all privately owned land in the Nation (excluding Alaska).

Farmers' share

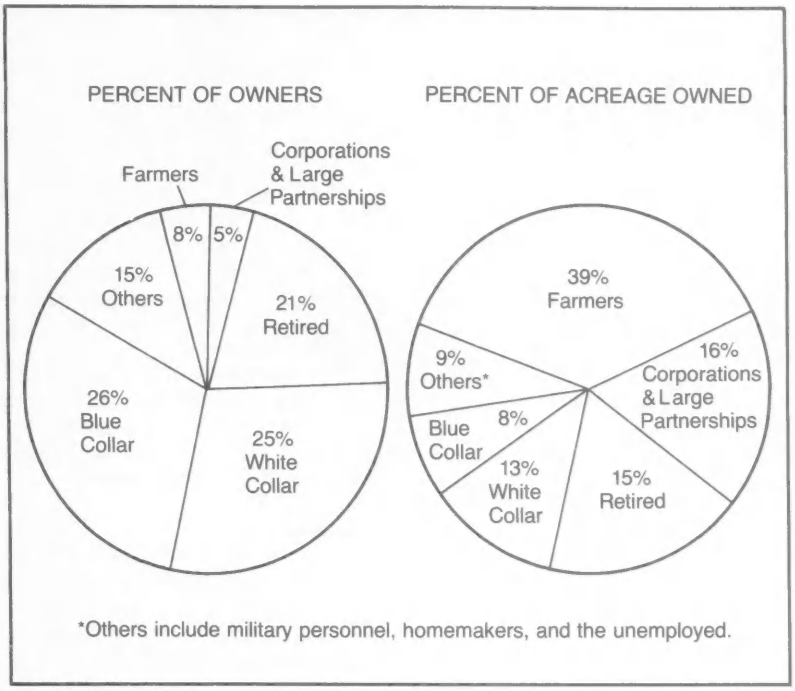
Looking specifically at farm and ranch land — which represents about 871 million acres out of 1.25 billion acres of private U.S. land — farmers own about half. Around 431 million of their 493 million acres are used in farms and ranches.

Other groups owning farm and ranch land include the retired (in many cases, retired farmers), white and blue collar workers, and big business.

Corporations and large partnerships own about 106 million acres of farm and ranch land, only about 12 percent of the total.

However, for all private land (farm

Groups Owning Private Land



*Others include military personnel, homemakers, and the unemployed.

and nonfarm) their share is 16 percent, even though they comprise only 5 percent of all land owners. At 203 million acres, their total holdings are about equal to the combined land area of California, Oregon, and Washington State.

USDA survey

These figures are among the results of a recent USDA survey on the ownership of privately held land. More than 37,000 individuals, partnerships, and corporations were surveyed in 1978 by the Economics, Statistics, and Cooperatives Service in an effort to find out more about some 28.8 million owners of 1.25 billion acres of private U.S. land—urban, rural, timber, ranch, and farm land.

Of course, privately held land excludes national forests and all other public lands which, including Alaska, account for about 4 out of every 10 acres of U.S land. Of this, there are 762 million acres owned by the Federal Government and 136 million acres owned by State and local Governments. In addition, some 51 million acres are held by, or in trust for, American Indians.

Survey information use

One important use of survey information will be to help policymakers design programs which affect land use, such as conservation, farm production, supply management, credit, and technical assistance programs.

When combined with soils and land use data, the information can also provide a check on how prime agricultural land is being used and whether it's still in the hands of farmers and ranchers.

Although the survey shows, as indicated, that farmers and corporations own a much larger share of the land than their numbers might indicate, the reverse is true for other major groups of owners.

For example, 25 percent of all U.S. landowners are professionals or other white collar workers, but this group of owners holds the deed to only 13 percent of all private U.S. land. Similarly, blue collar workers own just 8 percent of the land, although they account for 26 percent of all owners.

Residential property

For both groups, the majority probably own residential properties which are typically much smaller than farm or corporate land holdings. However, both groups together do own about a fifth of U.S. farm and ranch land acreage.

Farmers' share of all private land varies from place to place. By region, they own the largest proportion in the Mountain States, which stretch from Montana south to Nevada, Arizona, and New Mexico. They also hold over half of the private land in the Northern Plains, which includes the Dakotas, Nebraska, and Kansas.

Farmers own the smallest proportion of land in the Northeast (Maryland and Pennsylvania north to Maine). There the white and blue collar groups dominate in overall landownership, but farmers own about 45 percent of the land in farms.

In its profile of landownership, the survey also provides other important information on these characteristics of owners of private land:

Land owners

More than 9 out of 10 owners of land (farm and nonfarm) reside in the same county as the land that they own. These landowners hold 80 percent of all privately owned land. Another 5.6 percent of landowners, with 14.5 percent of the land, reside outside the county but within the same State.

Only 5.5 percent of the land is owned by the 2 percent of the owners who live in another State. And, perhaps more important still, only one-tenth of 1 percent of those owning U.S. land—and a mere 400,000 acres of land (or less than one-tenth of 1 percent of U.S. land)—is owned by those residing outside the U.S.

Concentration

Although an estimated 28.8 million owners have title to some U.S. land, landownership by size of holding is highly concentrated. Overall, 1 percent of the landowners (including individuals, partnerships, and corporations) hold about half of all private land.

At the same time, about 75 percent of the owners hold only about 3 percent of the land, with title to less than 10 acres each. Of course, the majority of landholders own residential or commercial properties on small lots, and these may still have considerable value.

Among owners of farm, ranch, and forest land, with their extensive uses, land holdings are more evenly distributed. The largest 1 percent of owners have less than 30 percent of the land in farms and ranches, a substantial proportion but sharply less than the share held by the top 1 percent when it comes to all private land. Concentration is also less pronounced in areas where crop farming dominates than in those where ranch or forestry use is prevalent.

Age, sex, and race

Almost 70 percent of all private land is owned by those over age 50. Only about 16 percent of the owners who hold 6 percent of the land are under 35.

In the category of ownership patterns by sex, more than 80 percent of the survey respondents were male, but this statistic does not fully reflect joint female ownership through husband-wife holdings and family partnerships. About a third of the private land is owned jointly by husbands and wives.

In the area of race, 9 out of 10 landowners are white and non-Hispanic. They own 97 percent of the land. Blacks, representing 4 percent of all owners, hold just 1 percent of the private land, with their largest share—5.4 percent of the land—in the Delta States of Mississippi, Arkansas, and Louisiana.

Education

More years of education do not necessarily mean more land owned according to the landownership figures. Those with 8 or fewer years of schooling account for about a fifth of all landowners and own about a fifth of privately held land; both proportions match those of college graduates.

Of all education levels, high school graduates accounted for the largest proportion of owners and the largest proportion of land owned, about 32 percent in each case.

In countries with a "landed aristocracy," ownership of the land remains in the hands of the same families, passed on from generation to generation. That isn't the case here.

Inheritance

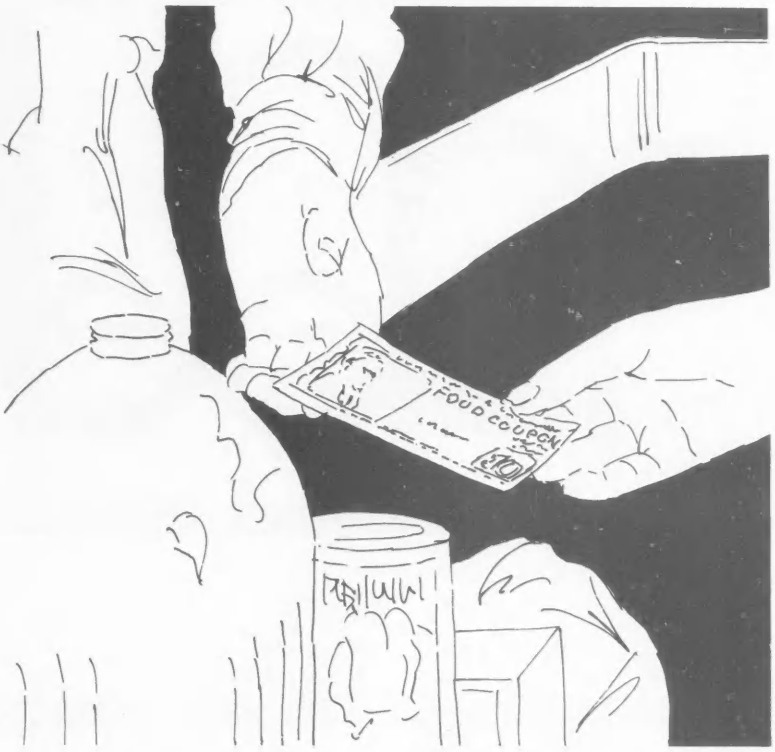
According to the landownership survey, only 18 percent of the private land was inherited. About 80 percent of the land was purchased, and three-fourths of that from nonrelatives.

Acquisition from relatives is most common in the Northern Plains where more than 40 percent of the land was either inherited or bought from relatives. The proportion is only 23 percent of the land in the Pacific States of Washington, Oregon, and California.

Purchase from nonrelatives ranges from a low of 51 percent in the Northern Plains up to 69 percent in the Pacific States.

[Based on the report "Who Owns The Land" by Robert Otte of the National Resource Economics Division.]

Food Stamp Changes



Since its beginning as a pilot program in the sixties, the Food Stamp Program has become this Nation's primary means of assuring better diets for people.

But studies show that program participation is still limited by such factors as lack of knowledge about the program among low-income households.

The Food Stamp Act of 1977—some provisions of which officially went into effect this year—offers potential solutions to many of these problems.

Major reforms

Of all the provisions of the 1977 Food Stamp Act, two changes will have the greatest impact. The first new procedure lowers income eligibility levels and changes the way net income is calculated. As a result, people with lower incomes receive additional benefits, while people with higher incomes either lose some benefits or are no longer eligible for the program.

The second major change is the elimination of the requirement that people must buy part of their food stamp allotment. In the past, most people had to pay an amount based on their income and other considerations. In return, they received food stamps worth more that they had paid.

New regulations no longer require cash outlays for food stamps. For example, a family which used to pay $50 for $150 in food stamps, now pays nothing for $100 in food stamps.

Removing the cash outlay requirement — which prevented some of the poor from participating — should expand the program to over 3 million needy people. Eliminating the purchase requirement also lowers the number of stamps in circulation and should reduce fraud and waste by the vendors who previously sold stamps.

Other Provisions

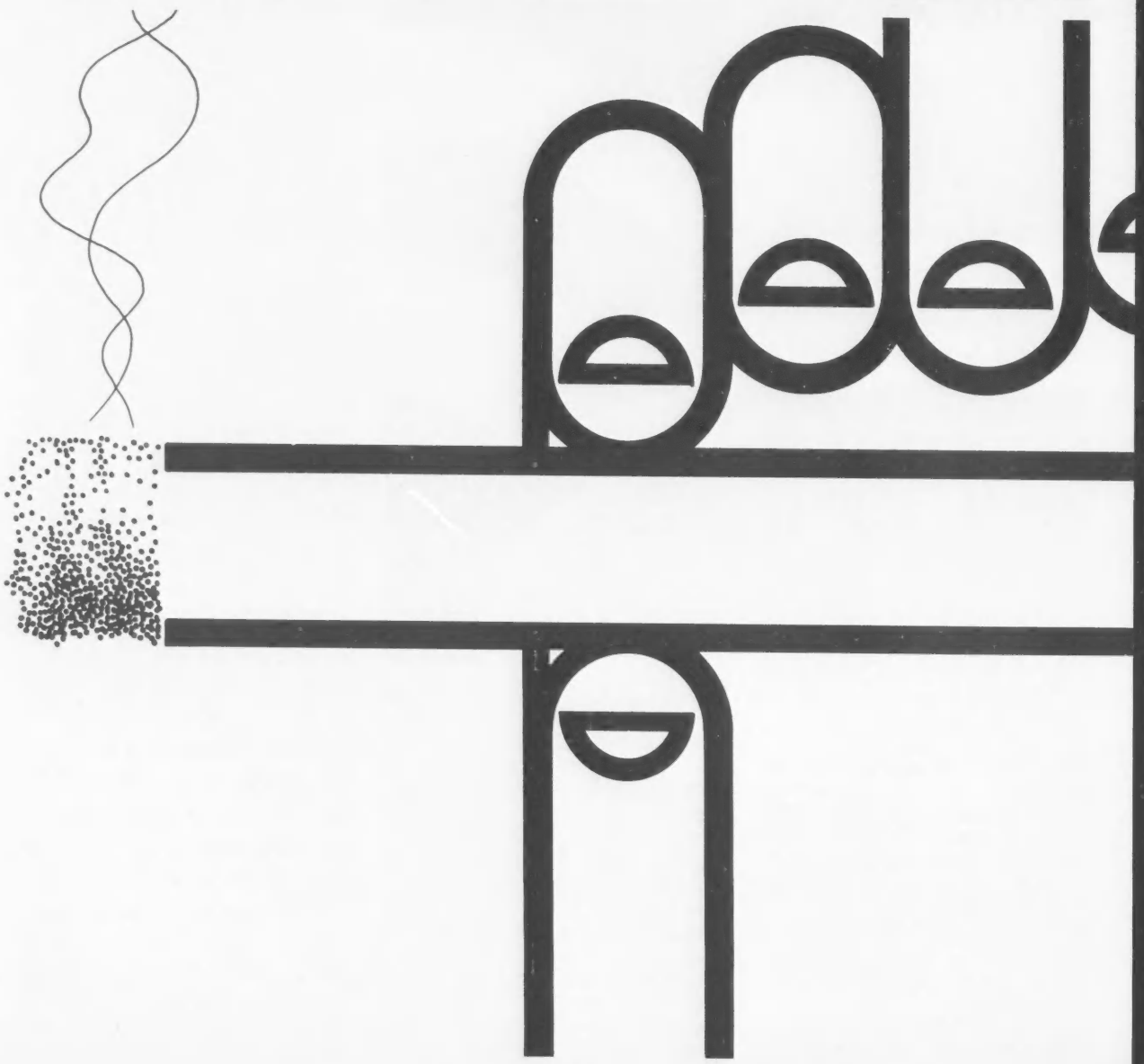
Several other changes under the new law should make it easier for qualified people to use food stamps. USDA has given States a simpler form for people to use when applying for food stamps. Interview procedures have also been simplified and made more flexible. For example, people who are physically unable to go to the certification office may be interviewed by telephone or home visits.

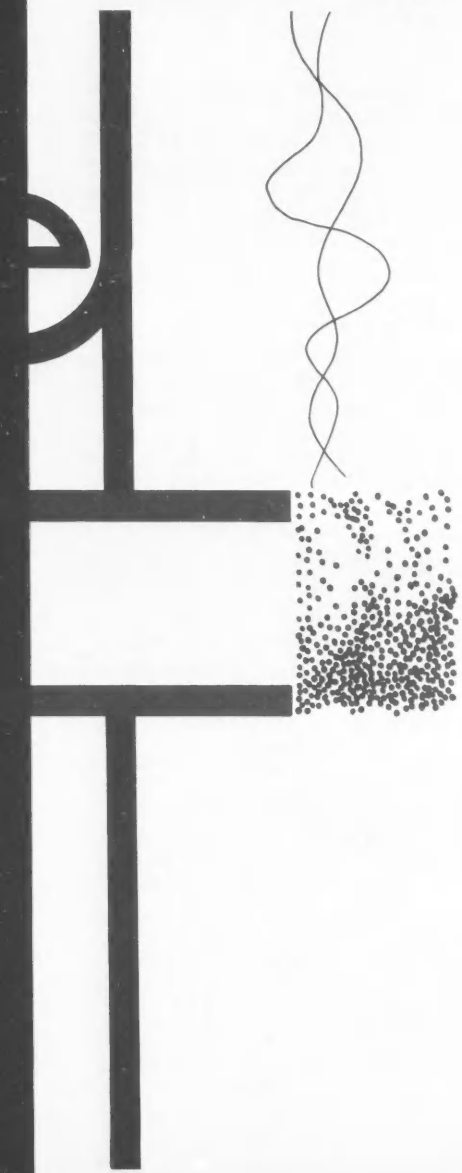
The new procedures will also rule out households with luxury cars, tighten eligibility rules for students, and exclude people who have committed food stamp program fraud.

For people to use the program, they must first know it is available. So the new legislation requires States to "inform low-income households about the availability, eligibility requirements, and benefits of the Food Stamp Program."

[Based on material distributed by UDSA's Food and Nutrition Service: *Food & Nutrition,* August 1979, and *A Look at Food Stamp Changes.* Additional information provided by the *National Food Review,* NFR-6 & 7.]

U.S. Tobacco Policy: Burning at Both Ends?





Why is the Federal Government—the Department of Health, Education, and Welfare (HEW) in particular—admonishing smokers to kick the habit while the Agriculture Department (USDA) a few blocks away administers a complex tobacco price support and production control program for growers?

Is there a conflict? On the surface, perhaps so, but consider: Tobacco producers have had some form of Government price support or production control program since 1933. Prior to that time, rapid fluctuations in prices and production forced many farmers of all kinds into bankruptcy.

The program now in effect offers Government support for each crop of tobacco unless producers vote in a referendum to reject certain restrictions, including acreage or marketing quotas.

Price supports

In return for these self-imposed restrictions, producers receive price supports. Under this program, there are no direct payments to growers. Instead, Commodity Credit Corporation (CCC) loans are made available through producer associations with the tobacco as collateral.

The associations process and store the tobacco, and repay the loans with interest as they sell the tobacco. Since 1933, about $5 billion has been loaned to associations with a loss rate of only 1 percent—lowest of any major commodity program. Unlike most commodities, tobacco can be stored for several years, then sold to cover the initial loan plus storage costs and interests.

So far, producers have voted overwhelmingly every 3 years to limit production in return for the supports.

Not an incentive

USDA experts say the price support program does not encourage tobacco use. Nor would its elimination greatly affect smoking, they add. In fact, that would probably decrease the retail price of cigarettes slightly. So if doing away with the program would affect consumption of cigarettes in any way, it would increase it.

As long as tobacco use is legal, the price support program makes economic sense, ESCS researchers contend. It effectively limits production, yet enables the farmer to get higher prices than he otherwise would. Many tobacco growers eke out a living on very small farms, mostly in the South.

The USDA price support program, including administration and export assistance, cost $54 million in 1978. This amounts to the equivalent of about 0.2 cent per pack of cigarettes. The Federal excise tax is 8 cents per pack—$2.6 billion last year—so smokers more than pay for the cost of the program.

Tobacco sales

In 1978 tobacco sales in the U.S. totaled more than $18 billion. U.S. farmers received about $2.5 billion from last year's tobacco sales, which makes tobacco the seventh most valuable crop (in terms of income) grown in this country. Growers represent about 276,000 farm families in 18 States.

The tobacco market in this country is dominated by six manufacturers who last year took in a profit of $2 billion from U.S. sales. They have about 39,000 employees on their payroll, concentrated mostly in four States where they have plants and offices.

Tobacco users pay a heavy tax for their habit. In addition to the $2.6 billion in Federal excise taxes collected last year, State governments took in $3.4 billion, and local governments took in $100 million.

Big export item

Tobacco is a big export item, too. Last year, more than $2.1 billion worth of tobacco and tobacco products left U.S. shores. Imports of tobacco products were far below that amount, so the export-import balance is heavily in our favor.

Studies indicate that most growers would still raise tobacco even at prices below current levels. However, without the USDA program, their total income might drop more than $500 million.

Will HEW's latest anti-smoking program have an effect on tobacco use? It's too early to tell. However, USDA experts do say that the earliest campaign—which began in 1964 with the Surgeon General's then-startling announcement that cigarette smoking could lead to cancer—did reduce per capita use.

Cigarette use

Today, total cigarette use is on a plateau although per capita use is still edging downward. That decline, smoking foes contend, means considerable health care savings for the Nation.

Beyond HEW's continuing efforts to cut smoking voluntarily, any attempt to impose heavier taxes on cigarettes to discourage smoking further would require approval by Congress or the various State governments.

[Based on special material provided by Robert H. Miller, of the National Economics Division.]

The Way It Was

Tobacco's road through history has been filled with resistance and controversy.

Amid much protest, the English were the first to make the habit of smoking a national recreation, in the late sixteenth century. It wasn't long before smoking adversaries had blamed the famed London fog on the new fad.

By the early seventeeth century, use of tobacco had spread to the Near East and the Orient.

In Japan, the government viewed with disfavor this custom introduced by foreigners. Also there had been several fires blamed on careless smokers, and acreage needed for rice and other necessary crops was being diverted to tobacco.

Soon several orders were issued against tobacco smokers and planters and harsh punishments were handed out to violators.

An English observer reported that in one Japanese city in 1614:

"At least 150 persons have been apprehended for buying and selling tobacco, contrary to the Emperor's command, and are in jeopardy of their lives. Large quantities of tobacco have been burnt."

China also considered tobacco as contraband. After mild laws banning tobacco use were flagrantly ignored by Chinese citizens, a final decree announced that any persons caught importing the weed into China would be decapitated.

In other eastern countries, smokers faced torture and in some cases were beheaded.

The Patriarch of Russia, in 1634, placed smoking in the category of deadly sins. First offenders were to be beaten and have their noses slit; persistent violators were to be deported to Siberia, tortured, or put to death.

Primarily because of its importance to the economy, smokers in the United States were free from the penalties that plagued tobacco users overseas. However there was opposition, ranging from temperate advice to eternal damnation.

In the mid 1800's, Horace Greeley depictured tobacco smoking as; "a fire at one end and a fool at the other."

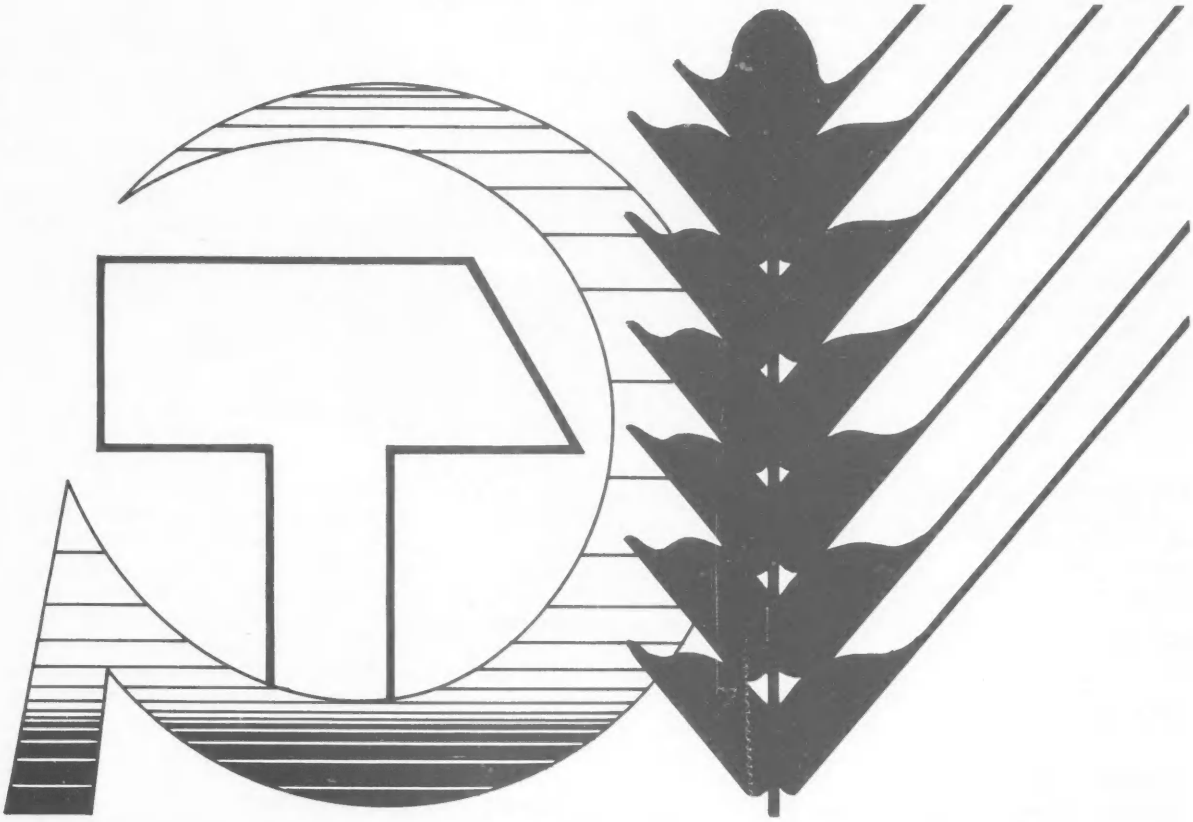
Many ministers dedicated their lives to saving "nicotine-laden" sinners.

Despite this deep rooted anti-tobacco campaign, ranging from terror in various parts of the world to a moral crusade in America, by 1850 there were more smokers than ever before.

Although occasional token attacks against smoking were still made, by the end of the Civil War, the tobacco opponents had worn themselves out.

Evidence of the demise of tobacco resistors surfaced in Boston. In 1880, a law which required that no one could be in possession of a "lighted pipe or seegar" in the city streets was repealed. Until that time tobacco users were confined to a "Smoker's Circle."

The Soviet Farm Picture



The historic pattern of widely fluctuating grain production in the Soviet Union continues in 1979. Crop output this year may fall about a fourth from the record harvest of 1978.

American farmers can expect to reap much of the benefits, particularly with the transportation and labor problems facing other major grain exporters.

Soviet crop prospects have already helped boost prices for U.S. grains, despite the anticipated record U.S. corn crop and near-record wheat crop.

As of mid-September, USDA was projecting 1979 USSR grain production at around 180 million metric tons for 1979. (A metric ton equals 2,205 pounds.) This would not only be well below last year's 237 million tons, but also far short of the Soviet goal of 227 million tons.

What happened to the Soviet crop? Persistent bad weather, particularly in the European part of the USSR, was the major culprit. Cool and wet spring weather that delayed seeding was followed by bad drought and finally midsummer rains at harvesttime that hampered the winter wheat harvest.

Other difficulties could be traced to inefficiencies in the Soviet agricultural sector, a shortage of farm equipment, and transportation problems.

Favorable spring wheat

It appears that the Soviets will have a good spring wheat crop (which usually represents between 40 and 60 percent of total Russian wheat production). This should help the total grain yield, but not enough to prevent the substantial shortfall U.S. forecasters are predicting.

Soviet officials and the press have given mixed reports about crop developments. However, there's little doubt about Soviet concern.

By late September, the USSR had bought 11.7 million tons of corn and 4 million tons of wheat for delivery in 1978/79 (October 1, 1978-September 30, 1979).

Agreement requirements

Under a 5-year grain agreement with the U.S., the USSR is required to buy at least 6 million tons of grain a year from the U.S. (3 million of corn and 3 million of wheat). They may buy up to 8 million tons without additional permission.

In August 1979, after talks with the Soviets, the U.S. agreed to make available 10 million tons of wheat and 5 million tons of corn over a 14-month period (August 1979–September 1980). Further grain talks are scheduled with the Soviets, including discussions on a possible extension of the 5-year agreement beyond September 1981.

As of late September 1979, reported U.S. sales for delivery in the fourth year of the agreement (October 1, 1979-September 30, 1980) totaled 8.3 million tons, including 3.6 million of wheat and 4.7 million of corn.

Poor harvest

The expected poor harvest this year comes at a bad time for the Soviets. After the large feed grain crop for the year ending January 1, 1979, cattle, hog, and poultry numbers were at record levels.

The Soviets have set a meat production goal of 19.5 million tons by 1985, and plan to devote all increases in grain supplies to livestock.

While grain consumption per animal has increased dramatically since the bad crop year of 1975, improved feed efficiency is needed to meet Soviet goals.

The importance the Soviets put on maintaining feed supplies in the face of lean crop years is reflected in the high meat production goals, and in the precious hard currency—badly needed at home for modernization—they are willing to spend overseas.

Meat supplies

Soviet consumers have come to expect meat in the markets, and the Soviet government appears reluctant to sharply restrict supplies.

However, in response to the greatly reduced amounts of meat available in 1976 — following the distress slaughtering of hogs in 1975 to adjust to the lower feed supply—the Soviets instituted meatless Thursdays in an attempt to curb demand.

If the combination of increased grain imports and withdrawals from reserve stocks are not sufficient to offset the lowered production this year, some slaughter of hogs or poultry, or both, may be necessary to adjust to reduced feed availability.

Such measures would be taken reluctantly, since it was only in 1978 that hog numbers had recovered to the level prior to the distress slaughtering that began in the summer of 1975.

Oilseeds

Oilseed crops have been another problem for the USSR. In 1978 a cold, wet summer and late harvesting hurt the sunflower seed crop—the major Soviet oilseed crop. This year's drought hit the major producing areas. Production may approximate last year's reduced total of 5.3 million tons.

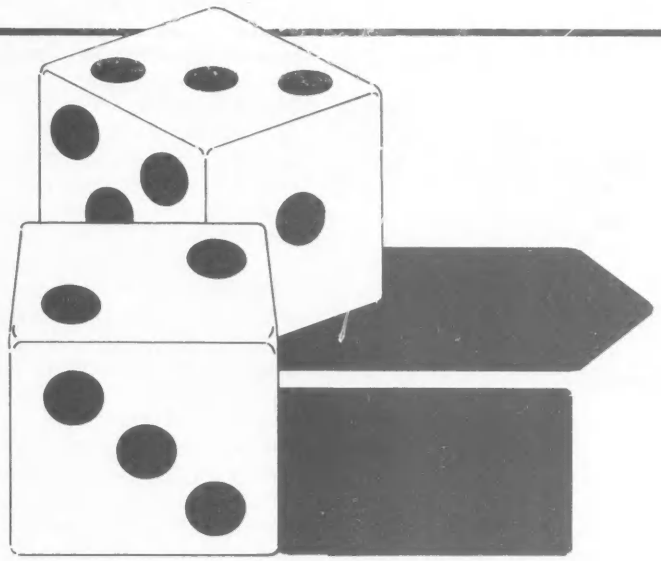
The Soviets imported about 1.2 million tons of soybeans from the U.S. in the 1978/79 marketing year (September 1–August 31), and outstanding sales for 1979/80 are reported at almost 1.1 million tons.

The USSR has traditionally been the swing market in world grain trade. Their extremely variable imports exert a disproportionately large influence for a nation that accounts for only 10-18 percent of world grain imports.

The extreme variability of Soviet crop yields should continue in upcoming years. If they are to meet their 1985 meat production goals, a larger—but fluctuating—Soviet market seems assured for U.S. farmers.

[Based on special material provided by the International Economics Division.]

American Farmers: Taking No Bets



To many, the farmer is the biggest gambler around. He gambles against the weather, insects, economic conditions, foreign and domestic demand, and anything else that could play havoc with a whole season's harvest.

So why do these perennial gamblers overwhelmingly shun the casino-like game of hedging—the practice of selling crops in advance of actual marketing at a fixed price, to guard against a possible drop in market prices?

In 1976, the Commodity Futures Trading Commission and USDA's ESCS surveyed approximately 10,000 farmers—representative of all U.S. farmers—to see how many actually use futures markets and cash forward contracts in marketing their products.

Survey results

The survey showed that only 5.6 percent of farmers with annual gross commodity sales of over $10,000 traded futures. Farmers in the Northeast had the lowest percentage of trading at 1.4 percent, while farmers in the Southwest had the highest with 9.4 percent.

It can reasonably be assumed that the types of crops produced in each region affect market trading participation.

The survey also revealed that operators of farms with large gross sales were more likely to trade futures than farmers with smaller sales.

In 1976, 13.1 percent of farmers with sales over $100,000 participated in the futures market. This group accounted for 60 percent of the farm sales in the U.S.

Many observers contend that widespread futures trading by farmers would reduce the risk of wide fluctuations in commodity prices, which in recent years has greatly increased the economic risk of farming.

Farmer participation

But farmers have been slow to join in — perhaps frightened away by the complex financing requirements needed to sell futures contracts. In futures trading, contracts are bought and sold on futures markets, the same way stocks are bought and sold on the stock market.

On commodity markets, two types of traders are found. The first is the hedger, who actually owns or anticipates ownership of a commodity and engages in the futures market to protect himself from unfavorable commodity price changes. The second type is the speculator who only wants to profit from buying and selling futures contracts without ever owning the commodities involved.

The process

In the case of the farmer, production hedges in the futures markets work like this:

Months before the harvest, the farmer sizes up his production and storage costs and figures the selling price he needs to make a profit. He then sells an amount of futures contracts equal to the size of part or all of his expected crop at a price that allows him a reasonable profit. When the crop is harvested, the farmer can deliver it against his futures commitment and keep his predetermined profit.

Since local market prices tend to move with futures market prices, most farmers prefer to sell to local dealers to avoid delivery costs.

For example, a corn producer in North Carolina would probably find it cheaper to sell corn in his local market than to transport it to Chicago to deliver on his futures contract.

In this case, a farmer will get out of

his futures commitment by buying back the same number of futures contracts he had earlier sold.

Locked in profit

Because prices for futures contracts and the crops involved tend to rise and fall together, if the contract price declines, the farmer makes a profit on the future contract, offsetting the lower price he gets by selling his crop to a local dealer. As long as current and futures prices move together, the farmer's profit is guaranteed.

Unfortunately, to gain the benefits of the futures market a farmer must face its hazards. And the one hazard farmers fear most is being "hit with a margin."

When a farmer enters the futures market he must pay a margin, usually equal to approximately 5 percent of the value of the crop being traded. The margin is often financed by a bank. However, if the price of the crop rises, during the term of the contract, the farmer must put up additional money to cover the increase.

Margin costs

For example, if farmer Jones sells 10,000 bushels of wheat in the futures market at $3 per bushel, he must pay a margin of approximately $1,500. If the price of wheat were to rise 30 cents a bushel, the farmer would have to pay the difference—an additional $3,000.

The farmer may not have this money readily available and may have trouble getting a bank loan. If he doesn't come up with the money quickly, the commodity broker will close out his position on the market.

When a farmer has his position on the market closed, the commodity broker buys back the contract at the current price to prevent any further losses. If this happens the farmer ends up paying more for the contract than the price he sold it for in the first place.

High stakes

Because the stakes are so high, many farmers find it wise to employ a private consultant. Also, a wide variety of publications carry information about commodities and futures data. These include reports of USDA, State experiment stations, the Cooperative Federal-State Extension Service, and the Commodity Futures Trading Commission, as well as newspapers and magazines.

For the farmer who doesn't need the thrill of being hit with a margin, there is another way to hedge. Cash forward contracts offer farmers the advantage of forward selling with no downpayments or margins involved.

This method allows farmers to enter into a direct agreement with a particular buyer to deliver a designated commodity at a designated date for a designated price. However, the farmer doesn't have the option to sell to anyone else as he would if he hedged in the futures market.

Product outlets

In addition to fixing their prices, cash forward contracts assure farmers outlets for their products. This is particularly important for producers of highly perishable products that have few alternative outlets.

While cash forward contracts eliminate the risks of margin calls, they do not protect the farmer from pitfalls that may be common to all types of forward selling. Although they reduce a farmer's price risk, he is still vulnerable to production risks or the risk of default by the other party.

Production depends on weather, disease, or any other unforeseen events. A crop failure may force a farmer to buy his way out of a forward contract at a loss.

For example, farmers who forward contracted soybeans and corn in the 1974 growing season had to make up for weather reduced production at harvest by buying additional quantities at high harvesttime prices to meet their contractual obligations.

Another potential problem in selling ahead is the failure of the other party to meet contract obligations. This only a minor problem in futures trading where effective arrangements have been made to assure that every contract is met. But, in cash forward contracting, buyers can go out of business or otherwise fail to uphold their end of the deal.

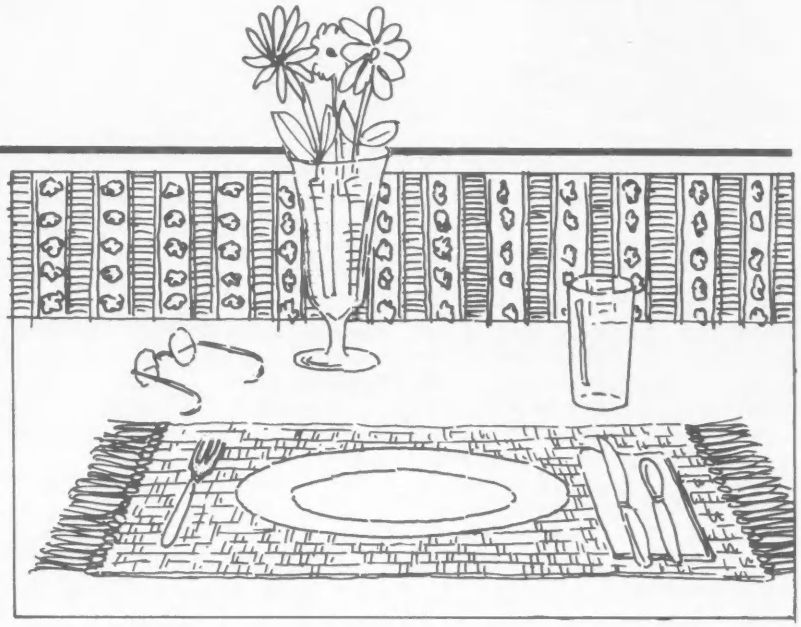
Farmers' keep track

Although the Commodity Futures Trading Commission-ESCS survey showed that most individual farmers do not hedge, nearly one-third of the sampled farmers kept track of futures during 1976.

This is because the futures price is an important indicator of the expected cash price for many commodities. Also, futures markets provide common reference points for prices all over the country.

[Based on the report, "Farmers Use of Forward Contracts and Futures Markets," by Allen Paul, Richard Heifner, and John Helmuth, of the National Economic Division. Also the report, "Grain Pricing," by John Helmuth and other special materials.]

Dining With America's Seniority



A vigorous, fast-growing consumer group is beginning to make itself heard above the drone of the American Youth Culture: senior citizens.

Since 1970, the number of Americans over 65 years of age has increased 16.5 percent—over three times the rate for those under 65. Households headed by a senior citizen now make up nearly 12 percent of the population.

And as the number of senior citizens has grown, the food market has become increasingly aware of their impact.

Survey results

Data released from the 1972–74 Bureau of Labor Statistics Consumer Expenditure Survey indicate that the elderly spend proportionately more on food than younger Americans.

The survey shows that senior citizens receive less than 11 percent of all income earned in the United States yet buy about 13 percent of the Nation's food.

The median income per person in elderly households amounted to $2,900 during the survey period — 12 percent less than the average for all families. This income was derived mainly from Social Security.

The only families having a lower per capita income were those with the most children — families headed by someone of middle age (35–44 years).

Weekly expenditures

Despite lower incomes, the per capita weekly expenditure for food among senior citizens was 11 percent higher than the average for those under 65. Individuals in elderly households spent $12.25 a week on food, while those in younger families spent about $11.

Clearly, senior citizens gear their budget more toward food than do other Americans. They allocated about 22 percent of their income to food purchases, compared with less than 17 percent, on the average, for all groups under 65.

Less eating out

And they prepared more of their meals at home. During the survey period, the elderly spent only 19 percent of their food dollar in restaurants and other eating places.

By contrast, the youngest age group—those under 25—spent 36 percent of their food money away from home. The average for all families was 27 percent.

The sharply lower rate of eating out among the elderly is due partly to their reduced mobility and poor health. Lower incomes, too, are a factor.

The elderly's larger outlay for food reflects mainly their small household size, which reduces the economy of food purchases. In 1974, senior citizen households averaged only 1.7 persons in size, nearly half the national average of 2.9 persons.

Diet differences

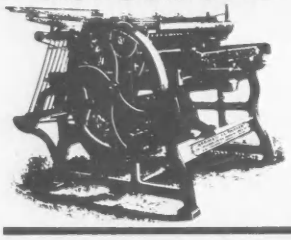
Besides these differences, the survey also reveals that the diet of senior citizens differs significantly from the average.

The elderly allocated over 17 percent of their at-home food dollar for fruits and vegetables—20 percent more than the average American. In addition, they spent more for poultry, eggs, sugar, and fats and oils than any other age group.

However, senior citizens spent considerably less for prepared foods—nearly half that spent by those under 25. They also spent less for red meats, dairy products, and beverages.

[Based on the Article, "Food Purchasing Patterns of Senior Citizens," in *National Food Review*, NFR-4, by Anthony Gallo and William T. Boehm]

Recent Publications



Agricultural Productivity: Expanding the Limits. Yao-chi Lu, National Economics Division and Leroy Quance, International Economics Division. AIB-431.

Technology is the major longrun influence on agricultural productivity. Advances in technology depend on public investment in agricultural research and extension (R & E) programs. Agricultural productivity could grow at 1.1 percent per year even without unprecedented technological breakthroughs if public funding of agricultural R & E programs continues at its historical rate of 3 percent per year (baseline scenario).

Labor Force Activity of Women in Metropolitan and Nonmetropolitan America. David L. Brown, and Jeanne M. O'Leary, Economic Development Division. RDRR-15.

This research describes the structure and change of women's employment and labor force participation in nonmetro America, and compares the nonmetro situation with that of the metro sector. The study focuses on the quantity of jobs available to women in nonmetro counties, their occupational characteristics, and the types of industries in which they are located. The study is primarily concerned with the effect of urbanization on women's economic opportunities.

Establishing a Trout-Marketing Cooperative. James L. Goff, Ralph W. Dutrow and Raymond Williams. Cooperative Development Division. FCRR-12.

To meet the volume requirements of new markets like restaurants and supermarkets, trout growers are considering forming a cooperative to process and market the fish. The growers say they would commit up to 1,260,519 pounds of trout to a cooperative. That volume will require the cooperative to raise $329,500 for building, equipment, and initial operating capital, and to employ approximately 13 people on a full- or part-time basis. The cooperative's annual net income is projected at $23,955 by the third year.

U.S. Wheat Industry. Walter G. Heid, Jr. Economics, Statistics, and Cooperatives Service. AER-432.

U.S. wheat production doubled between 1950 and 1975. Improved yields per acre accounted for most of the increase. Since 1974, however, the growth in U.S. wheat yields per acre has leveled off. About half of the U.S. wheat crop is exported, but the somewhat erratic nature of foreign demand has caused considerable instability in the U.S. wheat industry. Large carryovers have been a problem in most years since 1950, despite Government programs to regulate wheat acreage, subsidize producers, store wheat, and facilitate wheat exports.

Balance Sheet of the Farming Sector, 1979. Carson D. Evans, National Economics Division. AIB-430.

The Balance Sheet of the Farming Sector assembles the major farm asset inventory and liability accounts into one financial statement. Farm assets were valued at $820 billion on January 1, 1979, and outstanding debt was $137 billion, leaving farm proprietors an equity of $683 billion. Each of these amounts stood about 15 percent above value on January 1, 1978.

Regional and Residential Impacts of the Proposed Better Jobs and Income Program. Shirley Pryor, International Economics Division. ESCS-69.

The Better Jobs and Income Program (BJIP) was proposed in September 1977 by the Administration. If it had been enacted, it would have lifted more families from poverty by 1981 than the current welfare system. Based on analysis with a simulation model, BJIP would have also distributed benefits more equally among the four census regions and between metropolitan and nonmetropolitan areas. BJIP would have lowered the poverty rate more in nonmetropolitan areas than would the current system.

The Impact of Race on Consumer Food Purchases. Larry E. Salathe, Anthony E. Gallo, and William T. Boehm, National Economics Division. ESCS-68.

The population growth rate among racial groups has differed in the past and is expected to continue doing so. This report analyzes the impact of race on consumer food purchases.

Food Prices in Perspective: A Summary Analysis. National Economic Division. ESCS-53.

This report presents a summary assessment of food price behavior, component costs, consumer demand, and food availability. Retail food prices in the United States rose an average of over 9 percent annually from 1973 to 1979. The authors conclude that substantially reducing the upward movement in food prices is going to require the same long-term effort needed for doing so in the economy.

Economic Trends

[1]Ratio of index of prices received by farmers to index of prices paid, interest, taxes, and farm wage rates. [2]Beginning January 1978 for all urban consumers. [3]Revised to adapt to weighting structure and retail price indexes for domestically produced farm foods from the new Consumer Price Index for all urban consumers (CPI-U) published by the Bureau of Labor Statistics. [4]Annual and quarterly data are on a 50-State basis. [5]Annual rates seasonally adjusted, 2nd quarter. [6]Seasonally adjusted. [7]As of March 1, 1967. [8]As of February 1.

Source: USDA (Agricultural Prices, Foreign Agricultural Trade, and Farm Real Estate Market Developments); U.S. Dept. of Commerce (Current Industrial Reports, Business News Reports, Monthly Retail Trade Report, and Survey of Current Business); and U.S. Dept. of Labor (The Labor Force, Wholesale Price Index, and Consumer Price Index).

Item	Unit or Base Period	1967	1978 Year	1978 Aug.	1979 June	1979 July	1979 Aug.
Prices:							
Prices received by farmers	1967=100	—	210	211	244	244	234
Crops	1967=100	—	204	204	233	240	230
Livestock and products	1967=100	—	217	218	255	250	239
Prices paid, interest, taxes, and wage rates	1967=100	—	219	221	249	251	251
Prices paid (living and production)	1967=100	—	212	214	240	243	242
Production items	1967=100	—	216	217	248	250	249
Ratio[1]	1967=100	—	96	95	98	97	93
Producer prices, all commodities	1967=100	—	209.3	210.6	233.1	236.6	238.1
Industrial commodities	1967=100	—	209.4	211.4	233.5	237.2	240.3
Farm products	1967=100	—	212.7	210.3	242.8	246.8	238.5
Processed foods and feeds	1967=100	—	202.6	201.8	220.7	223.0	220.3
Consumer price index, all items[2]	1967=100	—	195.4	197.8	216.6	218.9	221.1
Food[2]	1967=100	—	211.4	215.4	235.4	236.9	236.3
Farm Food Market Basket:[3]							
Retail cost	1967=100	—	199.4	204.3	224.9	225.9	223.5
Farm value	1967=100	—	207.4	210.7	231.1	229.6	223.9
Farm-retail spread	1967=100	—	194.5	200.4	221.0	223.5	223.1
Farmers' share of retail cost	Percent	—	39.3	39.0	38.8	38.4	37.8
Farm Income:[4]							
Volume of farm marketings	1967=100	—	123	118	110	106	116
Cash receipts from farm marketings	Million dollars	—	111,042.1	8,679.2	9,783.4	9,531.2	9,604.1
Crops	Million dollars	—	52,051.3	3,767.1	4,309.5	4,092.9	4,066.3
Livestock and products	Million dollars	—	58,990.8	4,912.2	5,473.9	5,438.3	5,537.8
Gross income[5]	Billion dollars	50.5	124.8	—	144.9	—	—
Farm production expenses[5]	Billion dollars	38.2	97.0	—	111.3	—	—
Net income[5]	Billion dollars	12.3	27.8	—	33.6	—	—
Agricultural Trade:							
Agricultural exports	Million dollars	—	—	2,391.5	2,760.6	2,715.2	2,735.4
Agricultural imports	Million dollars	—	—	1,033.3	1,507.0	1,279.5	1,310.8
Land Values:							
Average value per acre	Dollars	[7]168	[8]488	—	[8]559	—	600
Total value of farm real estate	Billion dollars	[7]189	[8]512	—	[8]584	—	—
Gross National Product:[5]	Billion dollars	796.3	2,127.6	—	2,329.8	—	—
Consumption	Billion dollars	490.4	1,350.9	—	1,475.9	—	—
Investment	Billion dollars	120.8	351.5	—	395.4	—	—
Government expenditures	Billion dollars	180.2	435.6	—	466.6	—	—
Net exports	Billion dollars	4.9	10.3	—	−8.1	—	—
Income and Spending:[6]							
Personal income, annual rate	Billion dollars	626.6	1,717.4	1,741.3	1,905.1	1,932.9	1,938.1
Total retail sales, monthly rate	Billion dollars	24.4	66.6	66.2	71.8	72.3	72.8
Retail sales of food group, monthly rate	Billion dollars	5.8	14.5	14.6	16.3	16.2	16.2
Employment and Wages:[6]							
Total civilian employment	Millions	74.4	94.4	94.7	96.8	97.2	96.9
Agricultural	Millions	3.8	3.3	3.4	3.3	3.3	3.3
Rate of unemployment	Percent	3.8	6.0	5.9	5.6	5.7	6.0
Workweek in manufacturing	Hours	40.6	40.4	40.4	40.4	40.2	40.0
Hourly earnings in manufacturing, unadjusted	Dollars	2.83	6.17	6.16	6.65	6.71	6.68
Industrial Production:[6]	1967=100	—	146.1	148.0	152.3	152.6	150.9
Manufacturers' Shipments and Inventories:[6]							
Total shipments, monthly rate	Million dollars	46,487	125,317	123,079	140,087	140,435	—
Total inventories, book value end of month	Million dollars	84,527	197,802	129,809	214,404	217,080	—
Total new orders, monthly rate	Million dollars	47,062	129,263	124,076	143,631	139,657	—

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